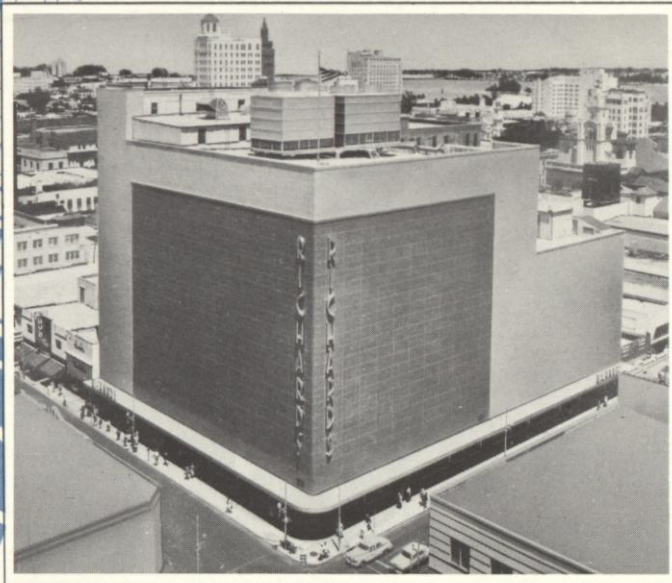
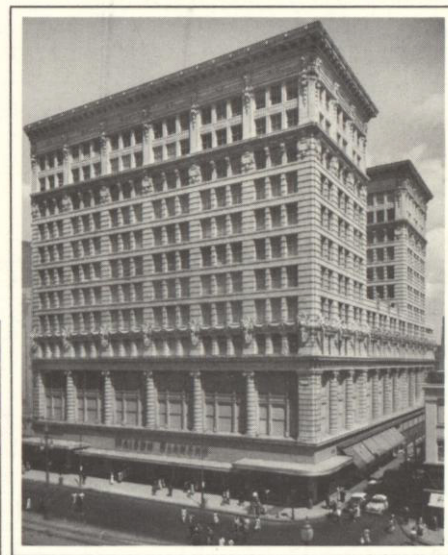
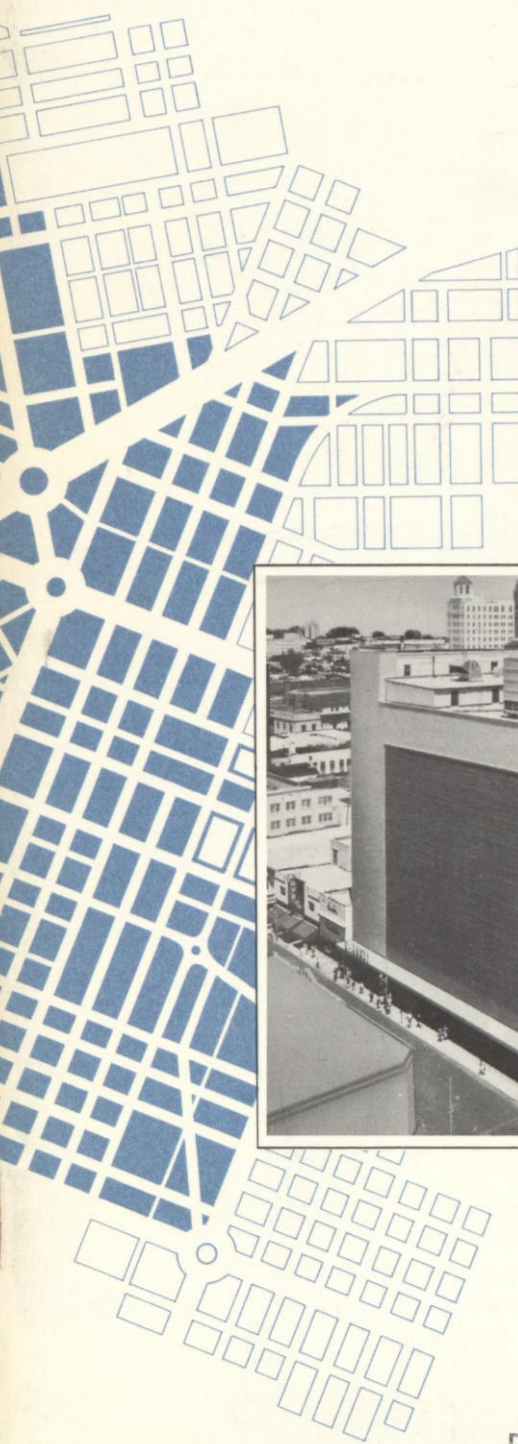


City Stores Company

Annual Report

Fiscal year ended January 30

1960



BOARDS

Department Stores

LIT BROTHERS

Bernard Litvak, *President*

PENNSYLVANIA:

Philadelphia
69th Street (Upper Darby)
Northeast Philadelphia
Morrisville

NEW JERSEY:

Trenton
Camden

MAISON BLANCHE

Isidore Newman, II, *President*

LOUISIANA:

New Orleans
Carrollton
Gentilly
Airline Highway
West Side

LOVEMAN, JOSEPH & LOEB

O. W. Schanbacher, *President*

ALABAMA:

Birmingham
Montgomery
Bessemer

LANSBURGH'S

Ralph L. Goldsmith, *President*

DISTRICT OF COLUMBIA:

Washington

MARYLAND:

Langley Park

VIRGINIA:

Arlington (Shirlington)

B. LOWENSTEIN

Stanley H. Fried, *President*

TENNESSEE:

Memphis
Lowenstein's East
Lowenstein's South
Lowenstein's Home Service

RICHARDS

Paul S. Walker, *President*

FLORIDA:

Miami
163rd Street
Miami Beach
Cutler Ridge*

KAUFMAN-STRAUS

Robert L. Milius, *President*

KENTUCKY:

Louisville
Dixie Manor
Shelbyville**

BRY-BLOCK

Irving Garfinkle, *Executive Head*

TENNESSEE:

Memphis

R. H. WHITE

Harold Broomfield, *Manager*

MASSACHUSETTS:

Worcester

HEARN'S

Gwilym R. Thomas, *Executive Head*

NEW YORK:

Bronx

Specialty Stores

Benjamin Goldstein, *President*

FRANKLIN SIMON

CONNECTICUT:

Westport
Milford*

DISTRICT OF COLUMBIA:

Washington

FLORIDA:

Fort Lauderdale

GEORGIA:

Atlanta
Lenox Square

MASSACHUSETTS:

Boston

MICHIGAN:

Detroit
Northland Center
Eastland Center

MISSOURI:

Crestwood
Clayton

NEW JERSEY:

East Orange
Eatontown

NEW YORK:

New York City
Garden City
Manhasset

NORTH CAROLINA:

Charlotte

OHIO:

Cincinnati — Swifton
Cleveland

TENNESSEE:

Memphis

VIRGINIA:

Seven Corners
Wheaton Plaza*

OPPENHEIM COLLINS

DELAWARE:

Wilmington

MARYLAND:

Baltimore — Mondawmin
Harundale Center
Towson Center

NEW JERSEY:

East Orange
Hackensack
Haddonfield
Menlo Park
Morristown
Paramus

NEW YORK:

New York City
Buffalo — downtown and Thruway Plaza
Bay Shore
Cross County
Hicksville
Huntington
Valley Stream
Roosevelt Field

PENNSYLVANIA:

Philadelphia
Germantown
Willow Grove

KLINE'S

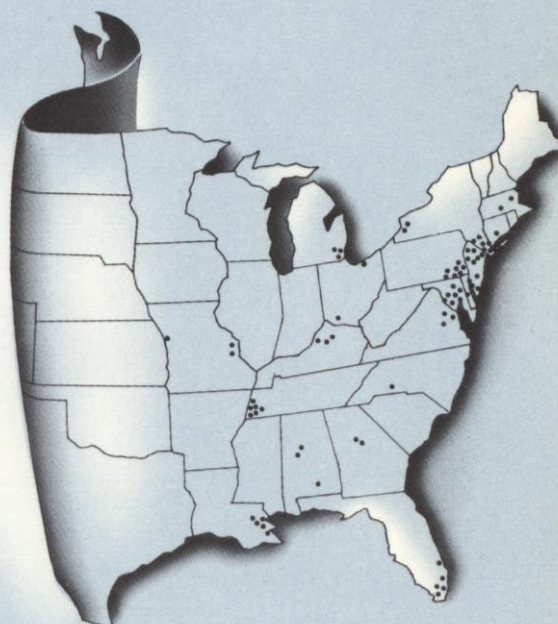
George J. Duchossois, *General Manager*

MISSOURI:

Kansas City

City Stores Company

*operating 31 department stores,
1 junior department store
and 45 specialty stores.*



* To be opened during 1960
** To be opened during 1961

City Stores Company

CORPORATION OFFICE

132 West 31st Street, New York 1, N. Y.

NEW YORK BUYING OFFICE

City Stores Mercantile Co., 132 W. 31st St., New York 1, N. Y.

Directors

GUSTAVE G. AMSTERDAM
JAMES H. BECKER
MURRY C. BECKER
DAVID BORTIN
HAROLD W. BRIGHTMAN
FRANKLIN F. BRUDER
J. J. CAPRANO
RALPH L. GOLDSMITH
ALBERT M. GREENFIELD
BRUCE H. GREENFIELD
JOSEPH A. W. IGLEHART
WILLIAM F. KELLY
BERNARD LITVAK
ISIDORE NEWMAN, II
MAX ROBB
O. W. SCHANBACHER
SERGE SEMENENKO

Officers

GUSTAVE G. AMSTERDAM, Chairman of the Board
MAX ROBB, President
FRANKLIN F. BRUDER, Executive Vice President and Treasurer
ISIDORE NEWMAN, II, Senior Vice President
HAROLD W. BRIGHTMAN, Vice President
RALPH L. GOLDSMITH, Vice President
LESTER HANO, Vice President
BERNARD LITVAK, Vice President
O. W. SCHANBACHER, Vice President
IRVING J. ZIPIN, General Attorney and Assistant Secretary
J. KARL FISHBACH, Controller and Assistant Treasurer
MILTON A. KAMSLER, Secretary

TRANSFER AGENT	The Chase Manhattan Bank, New York, N. Y.
CO-TRANSFER AGENT	The First Pennsylvania Banking & Trust Company, Philadelphia, Pa.
REGISTRAR	Chemical Bank New York Trust Company, New York, N. Y.
COUNSEL	Folz, Bard, Kamsler, Goodis & Greenfield, Philadelphia, Pa.
AUDITORS	S. D. Leidesdorf & Co., New York, N. Y.

Annual Meeting May 18, 1960 • 11 A.M. (E.D.S.T.)
Hotel Statler, 7th Avenue and West 33rd Street
New York, N. Y. (Georgian Room, Ball Room Floor)

Highlights

	YEAR (52 WEEKS) ENDED	
	January 30, 1960	January 31, 1959
OPERATIONS		
Sales	\$274,633,000	\$268,964,000
Income before federal income taxes	5,654,000	5,058,000
Federal income taxes	2,900,000	2,750,000
Net income	2,754,000	2,308,000
Income applicable to common stock	2,754,000	2,272,000
Income per average common share	1.09	0.90
DIVIDENDS		
Preferred stock	—	36,000
Common stock	2,525,000	3,282,000
Per share of preferred stock	—	4.25
Per share of common stock	1.00	1.30
FINANCIAL		
Current assets	94,718,000	99,943,000
Current liabilities	34,320,000	34,263,000
Working capital	60,398,000	65,680,000
Current ratio	2.8	2.9
Accounts receivable	63,876,000	62,299,000
Bank remittances on portion of receivables . . .	<i>12,871,000</i>	<i>12,283,000</i>
Inventories	30,235,000	27,892,000
Property and equipment — net	38,953,000	39,505,000
Long term debt	29,128,000	32,336,000
Ownership	62,294,000	61,755,000
Common stock equity	62,294,000	61,755,000
Common stock equity per share	23.31	24.46
Number of shares outstanding		
Common stock — average during year	2,525,000	2,525,000
Common stock — at end of year	2,672,766	2,524,553

Exclusive of extraordinary items which did not result from the usual or typical business operations of the periods and have been credited or charged to income reinvested in business or to reserves.

Italics denote deductions.

City Stores Company

To the Stockholders:

City Stores Company has just completed a significant year of basic policy changes which are, in our judgment, more important than the financial results. However, a few comments should be made about these figures for the year 1959.

The significant financial details are set forth in full in the succeeding pages of this report. Sales rose to an all-time high of \$274,633,000 and net income was \$2,754,000 for the year. Although net income was up \$446,000 or 19% over the preceding year, we do not consider this a satisfactory result. However, some part of the year's results can be attributed to non-recurring costs connected with building for the future. We look forward to better profits in the years immediately ahead.

Now, as to the basic policy which has guided us in the past year. We believe that business success demands talented leaders with all the modern tools to make that leadership effective. In fiscal 1959 we took additional steps designed to create a more competent management group, in many cases young in years but with excellent professional capacity and standing in our industry. These executives are in turn creating strong management groups in each of our stores by developing existing associates and attracting new leaders in each lower echelon.

The process of building a great company whose operations and results are comparable to the best in retailing, requires substantial investment in men, methods and machines which bears its best fruit in future years. In 1959 we intensified that investment — we plan to emphasize these activities until our goal is reached — and we are already beginning to see the first benefits of our policy changes.

We have, both company-wide and in the store units, created plans which should in the next half-dozen years give our store presidents all the tools, in the form of systems and methods as well as bricks and mortar, that they will need to achieve the greatly increased return on capital which we demand of them and ourselves.

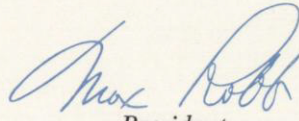
The year 1960 will see the first company-wide pension plan on a modest basis, which we expect to improve as better operating results warrant. At the same time, the Directors have adopted a plan providing for stock options to be granted to our key executives, subject to approval by the stockholders. Details of these two programs are contained in the proxy statement mailed to our stockholders with this annual report. Plans for profit sharing and deferred compensation are in the making. The widespread use of electronic tools is being pioneered in two of our largest units and we believe we are in the forefront of this development that will be so important in expense control for the future.

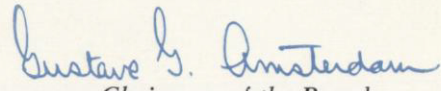
Important steps toward knitting together all phases of our operation have been taken in the merger of Diversified Stores Corporation into City Stores Company and in the achievement of closer cooperation between the central office and our operating units as well as among those operating units themselves. More of this stream-

lining and simplification of corporate structure will be accomplished in this coming year.

Although the top leadership phases of our programs are most important and well advanced, it would serve no useful purpose to name here the continuing associates who have been given expanded responsibility or the new associates who have assumed important positions in our top ranks. We have every hope that the success they achieve in the years ahead will speak for them. We shall require of our top executives such significant service to their local communities and such achievement in their individual retail units as shall, added together, make City Stores Company a national leader in a great industry, and of which we may all be justly proud.

Respectfully submitted,


President


Chairman of the Board

April 25, 1960.

Review of Operations

SALES AND INCOME

In the fiscal year 1959, sales totaled \$274,633,000, an increase of \$5,669,000, or 2.1% over fiscal year 1958.

Income before taxes for 1959 amounted to \$5,654,000, an increase of \$596,000 over 1958. Provision for federal income taxes amounted to \$2,900,000 and \$2,750,000 respectively.

Income applicable to the common stock of \$2,754,000, or \$1.09 per average share, for 1959 compared with \$2,272,000, or \$.90 per average share, for 1958.

DIVIDENDS (COMMON STOCK)

In 1959, dividends of \$2,525,000 were paid, compared with \$3,282,000 for 1958. The 1959 dividends represent four payments of \$.25 per share, while in 1958 dividends of \$.35 were paid during each of the first three quarters and \$.25 in the fourth quarter.

A dividend of \$.25 was declared payable May 1, 1960, representing the 63rd consecutive quarterly dividend paid since 1944.

Certain long term loan agreements, as described in Note F to the financial statements contain provisions with respect to the payment of cash dividends.

WORKING CAPITAL

Working capital, or the excess of current assets over current liabilities, amounted to \$60,398,000 at the close of 1959, a decrease during the year of \$5,282,000, summarized as follows:

Additions to working capital	
Net Income	\$ 2,754,000
Depreciation	3,642,000
Deferred federal income taxes and other items	374,000
	<u>\$ 6,770,000</u>
Uses of working capital	
Expenditures for property and equipment, net of dispositions of \$1,152,000	\$ 3,096,000
Dividends paid	2,525,000
Reduction of long term debt and other credit items . .	5,516,000
Increase in investments and other assets	410,000
Charges to reserves and other items	505,000
	<u>\$12,052,000</u>
Decrease in working capital	<u>\$ 5,282,000</u>



The ratio of current assets to current liabilities at the end of 1959 amounted to 2.8, compared with 2.9 the previous year.

Cash and marketable securities amounted to \$11,079,000 compared with \$19,576,000 for the previous year. The decrease is occasioned by an increase in accounts receivable and inventories and the uses of working capital indicated above.

Before considering the proceeds from bank financing, accounts receivable amounted to \$63,876,000 this year, compared with \$62,299,000 the previous year, after allowance for doubtful accounts. After deducting the proceeds from bank financing, accounts receivable increased from \$50,016,000 last year to \$51,005,000 at the end of this year.

INVENTORIES

Merchandise inventories, priced principally at LIFO cost and partly at the lower of cost or market, increased from \$27,892,000 last year to \$30,235,000. The increase in inventory is due principally to the opening of new stores.

PROPERTY AND EQUIPMENT

Capital expenditures amounted to \$4,248,000 for store improvements, fixtures and equipment.

TAXES

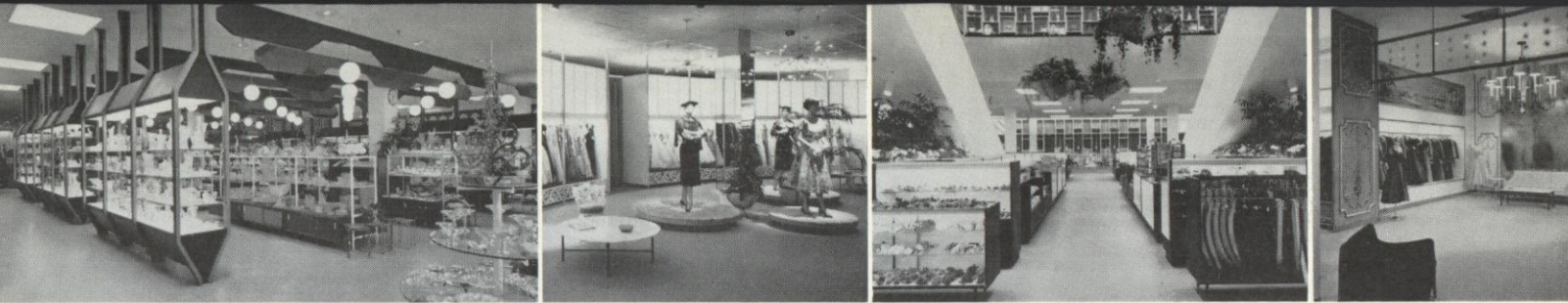
Federal, state and local taxes during the year aggregated \$7,700,000, equivalent to \$3.05 per share of common stock. This compares with \$7,100,000 and \$2.81 per share of common stock the previous year.

OWNERSHIP AND MINORITY INTERESTS

At the close of the fiscal year, the minority interest of a former subsidiary, Diversified Stores Corporation, was acquired by a merger into our Company. This merger resulted in an increase in ownership of \$309,000 through the issuance of our capital stock as described in Note H in the financial statements.

OPERATIONS AND EXPANSION

Lit Brothers, consisting of the main store in Philadelphia and three major branches in the Philadelphia area, the downtown store in Trenton and a store in Morrisville, Pennsylvania, constitutes our largest group of department stores. Major urban redevelopment continues in the downtown Philadelphia area. Plans are being formulated for the development of additional parking facilities of a significant nature adjoining the store, accompanied by a program of physical modernization. The



Trenton store has also taken leadership in developing a plan for revitalizing downtown. During the past year Lit's increased its program of building a better fashion image through improved and more effective publicity and merchandising.

The year 1959 was the Golden Anniversary of Maison Blanche in New Orleans. Each of its units contributed to the increased sales and profits of this important division in the Company. Many civic events and merchandising programs added to its reputation as the retail leader of the lower Mississippi Valley. Recently, an addition of 28,000 square feet was made to the popular Airlines branch, resulting in a redesigned second floor devoted to homefurnishings fashions, with emphasis on complete furniture and drapery departments.

During the past year Loveman, Joseph & Loeb in Birmingham and its two suburban units continued an intensive program of fashion emphasis and appeal to enhance its prestige operations in the important Alabama areas. To continue its well accepted position, plans are in work for a sizable expansion of its main store.

The Lansburgh stores in and about the nation's capital concerned themselves with many major events and programs during the past year. New escalators and general renovations in the Washington downtown store were completed in August 1959. To meet the challenge of downtown competition as well as the heavily developed suburban business in the Washington area, land has been acquired in close proximity to the main store for customer parking. In September 1959, the second suburban store was opened at Shirlington, Virginia, in Arlington County consisting of 150,000 square feet of modern design and decor. The year 1960 marks the One Hundredth Anniversary of Lansburgh's in the Washington community and a number of events and programs have been planned, some of which are already in progress.

In Memphis, Tennessee, the Lowenstein operation has continued to serve the community through greater merchandising emphasis and broadening of services to its customers. Business in the branch stores continued to improve in a satisfactory manner. Since the lease for the main store will terminate in 1964, plans for a new Lowenstein store in downtown Memphis are well advanced and will be announced shortly.

Improvements have been made in our Richards operations in Miami, Florida. The 163rd Street store has continued its progressive strides. Because we believe in the future of the Southern Florida community, another suburban store is under construction in the Cutler Ridge Regional Shopping Center, about twenty miles south of the downtown store. This unit will open initially with 60,000 square feet with provision for additional space as business warrants. The store is planned for opening on October 15, 1960. The former Franklin Simon store on Lincoln Road, Miami Beach, was transferred to Richards and converted into an apparel store containing women's, children's and men's clothing and furnishings.

In Louisville, Kentucky, Kaufman-Straus made strides in gaining a greater share of the consumer market through the opening of its first suburban store of 60,000

square feet in Dixie Manor Center, south of Louisville. Plans for a second suburban store of 80,000 square feet in the Shelbyville Center, eight miles east of the downtown store, are progressing. In addition, recent changes in the development of the downtown store have been initiated through improved merchandising and service.

New ownership of the Lincoln Plaza Shopping Center in Worcester and the approval of construction of an expressway to the rear of the Center are expected to prove beneficial to our R. H. White Worcester store. Plans for enlargement of the Center are already under way.

The Hearn's Bronx store is improving its physical plant by additional air-conditioning and department renovations in order to obtain increased volume of business in its trading area. A branch unit is under contract.

Since February, 1959, the Franklin Simon Division of our specialty store group opened five stores and closed one. The new stores are in Crestwood Plaza, St. Louis, Missouri; Lenox Square Regional Shopping Center in Atlanta, Georgia; Charlotte-town Shopping Center, Charlotte, North Carolina and Las Olas Center in Fort Lauderdale, Florida. A new store was opened in February, 1960, in Eatontown Shopping Center, Monmouth, New Jersey. The Miami Beach store was transferred to Richards and the downtown Cincinnati store was closed in February, 1960. The Oppenheim Collins Division opened stores in Roosevelt Field Shopping Center, Long Island, and in Towson Plaza, Baltimore, Maryland during 1959, and more recently in Menlo Park Shopping Center near New Brunswick, New Jersey. This division likewise closed stores in Garden City, Long Island and in downtown Baltimore. New stores presently planned for Franklin Simon include units in Wheaton Plaza Regional Shopping Center, Maryland and Connecticut Post Shopping Center, Milford, Connecticut, both of which are to open in early Fall of this year.

NEW YORK BUYING OFFICE

The resident buying office of the Company located in New York has conducted, in addition to its usual and normal services, significant programs to develop and stimulate emphasis in the several merchandising categories for our respective store affiliates. The foreign import program on behalf of the Company was developed through the New York office and included visits by personnel to seven European countries in search of unusual merchandise from abroad to supplement our assortments. A continuing program of emphasizing important vendor and supplier business is producing beneficial results.

Statement of Income

	YEAR (52 WEEKS) ENDED	
	January 30, 1960	January 31, 1959
Sales (including leased departments)	\$274,632,594	\$268,964,485
Deduct:		
Cost of goods sold and operating expenses		
less carrying charges	263,394,998	259,149,335
Depreciation and amortization	3,641,417	3,192,733
Interest and debt expense	2,623,488	2,158,611
	<u>269,659,903</u>	<u>264,500,679</u>
	4,972,691	4,463,806
Net income of unconsolidated subsidiaries (depreciation of \$399,418 and \$802,815, respectively, deducted) — Note A	145,439	299,585
Miscellaneous other income (including \$271,455 prior years' interest on refund of federal income taxes)	527,371	210,190
Minority share of net loss of subsidiaries	<u>8,114</u>	<u>84,700</u>
Income before federal income taxes	5,653,615	5,058,281
Federal income taxes (less \$136,139 net refund- able prior years' taxes) — Note E	<u>2,900,000</u>	<u>2,750,000</u>
Net income	<u>\$ 2,753,615</u>	<u>\$ 2,308,281</u>

Exclusive of extraordinary items which did not result from the usual or typical business operations of the period and have been credited or charged to income reinvested in business or to reserves.

See notes to financial statements, pages 13 through 15.

Statement of

ASSETS

	January 30, 1960	January 31, 1959
CURRENT ASSETS		
Cash	\$ 10,806,522	\$ 19,222,661
Marketable securities — at cost (approximate market)	272,675	353,366
Accounts receivable, customers and others, including amounts assigned to banks less amounts received from banks under agreements; less allowances for doubtful accounts of \$2,686,838 and \$2,782,284, respectively — Note B	51,004,990	50,015,850
Merchandise inventories — Note C.	30,235,231	27,891,725
Supplies and prepaid expenses	2,398,706	2,459,279
TOTAL CURRENT ASSETS	94,718,124	99,942,881
INVESTMENTS AND OTHER ASSETS		
Investments in and net receivables from unconsolidated subsidiaries — Note A and see page 12	3,489,282	2,977,420
U. S. Government securities deposited as security under leases	275,693	291,851
Mortgages receivable, sundry investments and other items	1,366,988	1,338,058
Refundable prior years' federal income taxes	127,177	242,124
	5,259,140	4,849,453
PROPERTY AND EQUIPMENT — Note D		
Land, buildings, leaseholds, fixtures and equipment — at cost	64,849,638	63,328,398
Less accumulated depreciation and amortization	25,897,064	23,823,437
	38,952,574	39,504,961
UNAMORTIZED DEBT EXPENSE	176,897	202,239
	\$139,106,735	\$144,499,534

Financial Condition

LIABILITIES

	January 30, 1960	January 31, 1959
CURRENT LIABILITIES		
Accounts payable, accrued and sundry liabilities	\$ 19,606,647	\$ 19,342,592
Federal income taxes — Note E	8,459,976	8,817,910
Notes payable to bank	3,500,000	3,100,000
Current portion of long term debt and mortgages not assumed — Notes A and D	2,752,957	3,002,577
TOTAL CURRENT LIABILITIES	34,319,580	34,263,079
 LONG TERM DEBT (other than mortgages not assumed)		
— Note F.	29,128,000	32,336,000
 RESERVES — Note G	1,370,249	1,826,535
 DEFERRED FEDERAL INCOME TAXES — Note E	1,827,600	1,484,300
 MORTGAGES NOT ASSUMED — Notes A and D	9,892,517	10,459,015
 DEFERRED CREDIT AND OTHER ITEM	—	1,742,000
 MINORITY INTERESTS — Note H		
Preferred stock (par value)	161,350	175,150
Common stock equities	113,495	458,745
	274,845	633,895
 OWNERSHIP — Note H		
Common stock — \$5 par value — authorized 3,000,000 shares; outstanding 2,672,766 shares (after deducting 12,423 shares in treasury)	13,363,832	12,622,766
Other capital	17,849,216	18,512,208
Income reinvested in business — Note F	31,080,896	30,619,736
	62,293,944	61,754,710
	\$139,106,735	\$144,499,534

Statement of Income Reinvested in Business

	YEAR (52 WEEKS) ENDED	
	January 30, 1960	January 31, 1959
Balance at beginning of year	\$30,619,736	\$32,074,664
Net income for the year	2,753,615	2,308,281
	<u>33,373,351</u>	<u>34,382,945</u>
<i>Charges</i> for extraordinary items which did not result from the usual or typical business operations of the period:		
Loss on fixtures and equipment of vacated premises (net of \$37,509 minority share)	—	199,597
Disposition of 1957 suspense item, less applicable federal income tax reduction	—	245,872
	<u>—</u>	<u>445,469</u>
Net addition resulting principally from merger with Diversified Stores Corporation — Note H	232,096	—
	<u>33,605,447</u>	<u>33,937,476</u>
Dividends paid:		
Preferred stock	—	35,824
Common stock — \$1.00 and \$1.30 per share, respectively	2,524,551	3,281,916
	<u>2,524,551</u>	<u>3,317,740</u>
Balance at end of year — Note F	<u>\$31,080,896</u>	<u>\$30,619,736</u>

Italics denote deductions.

See notes to financial statements, pages 13 through 15.

Unconsolidated Real Estate Subsidiaries—Combined
Summary of Net Assets* — Note A

	January 30, 1960	January 31, 1959
Land, buildings, leaseholds and equipment, less depreciation (includes unoccupied premises of closed stores)	\$13,113,493	\$11,682,613
Mortgages and loan payable — current portions \$407,718 (current year) and \$352,834 (last year)	10,318,873	9,376,524
	<u>2,794,620</u>	<u>2,306,089</u>
Other assets, including cash of \$217,570 (current year) and \$92,255 (last year)	1,138,687†	1,042,040
	<u>3,933,307</u>	<u>3,348,129</u>
Accounts payable and federal income taxes	444,025	370,709
Net assets	<u>\$ 3,489,282</u>	<u>\$ 2,977,420</u>
Consisting of:		
Intercompany accounts with parent companies — net	\$ 2,575,767	\$ 2,054,447
Capital stocks and surplus	913,515	922,973
	<u>\$ 3,489,282</u>	<u>\$ 2,977,420</u>

* Three unconsolidated subsidiaries (liquidated in the preceding year) remain liable on mortgages commented on in Note D, which mortgages are not included herein.

† Includes a second mortgage of \$599,052 which is subordinate to a first mortgage payable of \$750,022 on which one of these subsidiaries remains contingently liable.

Leases:

The minimum annual rentals upon real property leased to unconsolidated subsidiaries under leases expiring more than 3 years from January 30, 1960, amounted to approximately \$400,000, of which approximately \$250,000 pertains to properties leased to City Stores Company and Consolidated Subsidiaries. Certain of the leases with an aggregate minimum annual rental of approximately \$200,000 have been guaranteed by consolidated subsidiaries of City Stores Company. Certain of the leases provide for payment of additional rental based on a percentage of sales (related to premises occupied by parent or consolidated subsidiaries) over a fixed amount, and for taxes, insurance or other charges.

Notes to Financial Statements

The financial statements for the preceding year are included for comparison purposes only. Reference should be made to the previously issued Annual Report for the Accountants' Report and notes relating to those financial statements.

A — PRINCIPLES OF CONSOLIDATION

The accounts of all subsidiaries are included in the accompanying consolidated financial statements, except those of certain real estate subsidiaries, the investments in which are included in the accompanying statement of financial condition at amounts equal to the net assets of such subsidiaries. A summary of such net assets is set forth on page 12.

B — ACCOUNTS RECEIVABLE FINANCING

The Company has agreements with various banks which provide, in effect, for a form of revolving credit under which specific accounts receivable are assigned to the banks, and the banks remit amounts equal to 90% of the accounts assigned, withholding 10% of the uncollected balances. Under the agreements, the Company accepts reassignment of any accounts in default (as defined) as long as it continues to assign accounts. The following is a summary of accounts financed:

	This Year	Last Year
Accounts receivable assigned	\$14,301,148	\$13,648,242
Less amounts remitted by banks	12,871,034	12,283,418
Net amount included in accounts receivable	<u>\$ 1,430,114</u>	<u>\$ 1,364,824</u>

C — MERCHANDISE INVENTORIES — Determined under Retail Method

Merchandise inventories, as summarized below, are priced principally at LIFO cost and partly at the lower of cost or market. The inventories priced at LIFO cost would be approximately \$4,852,000 more for this year and \$4,776,000 more for last year if they had been priced at the lower of cost or market.

	This Year	Last Year
At LIFO cost	\$23,728,577	\$22,082,993
Less allowance for discounts	482,887	482,175
	<u>23,245,690</u>	<u>21,600,818</u>
At lower of cost or market	6,989,541	6,290,907
	<u>\$30,235,231</u>	<u>\$27,891,725</u>

D — REAL ESTATE

The accounts include real estate in the net amount of \$9,618,851, principally store properties, subject to mortgages which at January 30, 1960 amounted to \$10,443,475. The Company is not liable on the mortgage notes; however, it has guaranteed to January 9, 1962 the payments of the mortgage principal installments aggregating \$1,061,665 and interest. Of these installments, \$550,957 is included in current liabilities.

E — FEDERAL INCOME TAXES

The provision for federal income taxes is approximately \$570,000 more than would have been required had current year operating losses of certain consolidated subsidiaries been available as a deduction from consolidated taxable income.

At January 30, 1960, there became available to City Stores Company operating loss carryovers of approximately \$3,000,000 which may be deducted against its future taxable income to the extent permitted by the Internal Revenue Code.

The deferred federal income taxes of \$1,827,600 represent the cumulative estimated amount which may be payable in future years resulting from deducting more depreciation for tax purposes, as permitted by the Internal Revenue Code, than the amount included in the accounts.

The accompanying financial statements are subject to final determination of federal, state and local taxes.

Notes to Financial Statements (Continued)

F — LONG TERM DEBT (other than mortgages not assumed)

	This Year	Last Year
Long term debt is summarized as follows:		
Notes payable	\$26,000,000	\$28,900,000
4% sinking fund debentures (subordinated) — payable \$300,000 annually	3,000,000	3,300,000
Mortgages payable (other than mortgages not assumed)	128,000	136,000
	<u>\$29,128,000</u>	<u>\$32,336,000</u>

Maturities of notes payable under loan agreements with The Prudential Insurance Company of America and The First National Bank of Boston aggregate \$1,900,000 annually from 1960 to 1970, and the balance of \$5,500,000 is due in 1971. In addition a term loan of \$1,500,000 from The First National Bank of Boston is payable in quarterly installments of \$250,000 commencing November, 1961. The loan agreements provide, among other things, for (1) the maintenance of minimum consolidated working capital of \$50,000,000, (2) restrictions on the purchase, redemption or other acquisition of the Company's stock, and (3) restrictions on the payment of cash dividends on the Company's common stock. Notwithstanding the restriction on cash dividends computed under a formula in the agreements as it pertains to (3) above, the holders of the notes have agreed that the Company be permitted to pay cash dividends which would not exceed for the year 1960 (ending January 28, 1961) 70% of consolidated net earnings of the year 1959. The amount of any cash dividends paid during the years 1959 and 1960 is to be included in any subsequent computation under the formula in the agreements pertaining to such restriction.

G — RESERVES

The reserves are provided for the following:	This Year	Last Year
Restoration of leased properties	\$ 441,899	\$ 441,899
Termination of store operations	232,785	500,000
Excess rentals	695,565	746,973
Integration costs	—	137,663
	<u>\$ 1,370,249</u>	<u>\$ 1,826,535</u>

H — OWNERSHIP

On January 30, 1960, Diversified Stores Corporation, a consolidated subsidiary, with minority stockholders, was merged into City Stores Company. The merger has been treated for accounting purposes as a pooling of interests resulting in a net increase in ownership of \$308,809, as follows:

Common stock — par value of 148,215 shares issued		\$ 741,075
Other capital:		
Addition as a result of merger	\$ 45,954	
Excess of par value of stock issued over par value of stock of Diversified Stores Corporation exchanged therefor	714,714	668,760
Income reinvested in business — addition as a result of merger		236,494
Net increase in ownership		<u>\$ 308,809</u>

The decrease of \$662,992 in other capital during 1959 consists of the \$668,760 decrease set forth above and miscellaneous credits.

On April 5, 1960, the Board of Directors approved a restricted Stock Option Plan (subject to stockholders' approval at the annual meeting of the Company on May 18, 1960) under which options to purchase 125,000 shares of the Company's common stock may be granted to selected key executive and managerial employees at option prices not less than 95% of the fair market value of the stock on the date the options are granted.

I — CONTINGENCIES AND OTHER COMMENTS

The minimum annual rentals upon real property leased to the Company and its consolidated subsidiaries under leases expiring more than three years from January 30, 1960, amount to approximately \$1,200,000 under leases with the unconsolidated real estate subsidiaries and \$4,400,000 under leases with others. Certain of the leases provide for payment of additional rental based on a percentage of sales over a fixed amount, and for taxes, insurance or other charges. Reference is made to summary of net assets of the unconsolidated real estate subsidiaries for minimum rentals payable by such subsidiaries.

Certain leases provide for the restoration of the related properties to their original condition, in connection with which, upon vacating such properties, there may be incurred costs in an amount presently indeterminable. Accordingly, no provision has been made in the accounts for such costs, except as to \$441,899 (included in the tabulation of reserves in Note G) recorded on the acquisition of a subsidiary in a prior year.

Commitments for and anticipated acquisition (under an option held by a subsidiary) of property and equipment aggregate approximately \$2,100,000.

On April 5, 1960, the Board of Directors approved a non-contributory pension plan effective February 1, 1960, covering generally, employees with 20 years of service, who are not participants in any other plan to which the Company contributes. The plan provides for retirement at age 65 with no vesting of rights prior to retirement. Although the Company does not presently contemplate funding this plan, it may do so in the future. The Company may amend, modify or terminate the plan in whole or in part at any time. Management estimates that the benefits to be paid under this plan, which will be charged to operations as paid, will approximate \$100,000 in 1960 and will increase to an annual rate of approximately \$435,000 in 1969. Payments under informal arrangements to presently retired employees (approximately \$392,000 this year) will gradually decline, based on mortality factors.

S. D. LEIDESDORF & CO.
CERTIFIED PUBLIC ACCOUNTANTS
NEW YORK, N. Y.

ACCOUNTANTS' REPORT

To the Board of Directors
City Stores Company
New York, N.Y.

We have examined the consolidated statement of financial condition of City Stores Company and consolidated subsidiaries as at January 30, 1960, and the related consolidated statements of income and income reinvested in business for the year (52 weeks) then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated statement of financial condition and consolidated statements of income and income reinvested in business, together with the notes to financial statements, present fairly the consolidated financial position of City Stores Company and consolidated subsidiaries at January 30, 1960, and the consolidated results of their operations for the year (52 weeks) then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

New York, N. Y.
April 12, 1960

S. D. LEIDESDORF & CO.

Historical Comparison

	January 30, 1960	January 31, 1959	February 1, 1958	February 2, 1957	January 28, 1956	January 29, 1955
OPERATIONS						
Sales	\$274,633,000	\$268,964,000	\$263,747,000	\$272,119,000	\$251,882,000	\$241,755,000
Index of sales	114%	111%	109%	113%	104%	100%
Income before federal income taxes	5,654,000	5,058,000	6,540,000	5,834,000	11,877,000	10,353,000
Federal income taxes .	2,900,000	2,750,000	3,200,000	2,313,300	5,973,000	4,931,000
Net income	2,754,000	2,308,000	3,340,000	3,521,000	5,904,000	5,422,000
Income applicable to common stock	2,754,000	2,272,000	3,298,000	3,471,000	5,662,000	4,980,000
Income per average common share	1.09	0.90	1.31	1.38	2.49	2.40
DIVIDENDS						
Preferred stock	—	36,000	42,000	50,000	242,000	442,000
Common stock	2,525,000	3,282,000	3,534,000	3,534,000	3,241,000	2,927,000
Per share						
Preferred stock	—	4.25	4.25	4.25	4.25	4.25
Common stock	1.00	1.30	1.40	1.40	1.40	1.40
FINANCIAL						
Current assets	94,718,000	99,943,000	96,495,000	106,098,000	110,177,000	96,862,000
Current liabilities . . .	34,320,000	34,263,000	30,285,000	32,574,000	31,772,000	26,314,000
Working capital	60,398,000	65,680,000	66,210,000	73,524,000	78,405,000	70,548,000
Current ratio	2.8	2.9	3.2	3.3	3.5	3.7
Accounts receivable . .	63,876,000	62,299,000	60,922,000	67,292,000	66,259,000	56,062,000
Bank remittances on portion of receivables	<i>12,871,000</i>	<i>12,283,000</i>	<i>12,871,000</i>	<i>10,999,000</i>	—	—
Inventories	30,235,000	27,892,000	31,996,000	34,904,000	31,417,000	29,559,000
Property and equipment — net	38,953,000	39,505,000	28,117,000	26,755,000	23,161,000	23,566,000
Long term debt	29,128,000	32,336,000	32,371,000	34,610,000	36,560,000	32,768,000
Ownership	62,294,000	61,755,000	63,983,000	67,489,000	65,458,000	63,088,000
Preferred stock	—	—	882,000	1,068,000	2,402,000	9,014,000
Common stock equity	62,294,000	61,755,000	63,101,000	66,421,000	63,056,000	54,074,000
Common stock equity per share . . .	23.31	24.46	24.99	26.31	25.51	25.07
Number of common shares outstanding						
Average during year	2,525,000	2,525,000	2,524,000	2,524,000	2,271,000	2,078,000
At end of year	2,672,766	2,524,553	2,524,567	2,524,374	2,471,918	2,157,018

Exclusive of extraordinary items which did not result from the usual or typical business operations and have been credited or charged to income reinvested in business or to reserves.

Italics denote deductions.

Our newest suburban units

- Lansburgh's Shirlington,
opened September, 1959
- Kaufman-Straus' Dixie Manor,
opened October, 1959
- Richards Cutler Ridge,
to open October, 1960



